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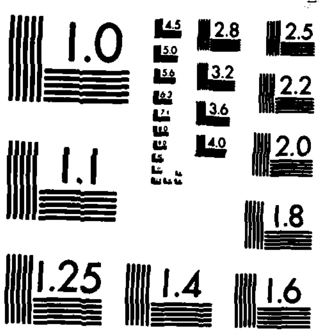

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MOBILIZATION ANALYSIS AND
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Mobilization Analysis and Industrial Policy: Dilemmas and Tradeoffs*

It is a privilege and pleasure to have this opportunity to present a few introductory remarks and raise some questions at the outset of this important and timely meeting on "Mobilization Economic Analysis and Industrial Policy."

It is a particular pleasure because the distinguished members of the conference panels on this first day include a long-standing and close friend, Bob Nathan, as well as a former Harvard professor of mine, Wassily Leontief. In fact, it was under Professor Leontief's supervision, as advisor for my senior honors thesis as an undergraduate at Harvard, that I first got seriously interested in the relationship between economic analysis and public policy. Wassily may not remember this, but it was just over four decades ago, in March, 1943, in the middle of World War II, that I completed this thesis, entitled: "The Transition to a Post War Economy: A Study of the Immediate Economic Problems Which the United States Will Face Upon Completion of the War, And of Their Solution."

Ironically, that undergraduate thesis dealt with the obverse side of this ICAF conference which might, alternatively, be called "The Transition to a War-Time Economy." Indeed, the two sides of the coin have more than oblique relevance to one another.

Notwithstanding this venerable background credential, I feel a bit perplexed about addressing the subject of "Mobilization Economic

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Analysis and Industrial Policy" in a group that includes practitioners and scholars who have worked on and thought about this subject for as long, and with as much distinction, as Bob Nathan, Wassily Leontief, Leon Keyserling, Larry Klein, and others who are giving papers at this meeting. In talking to these gentlemen about mobilization issues, I feel the same sort of trepidation that one might experience in talking, say, to Lee Iaccoca about automobiles, or Julia Childs about gourmet cuisine, or Jimmy Connors about tennis!

Anyhow, putting all that to one side, what I would like to do in these opening remarks is to raise a few questions, to identify a few tradeoffs and dilemmas, and perhaps to implant a few doubts and second thoughts in your minds about the subject we are addressing. Reflecting on and resolving these questions will be left to the conference discussion during the next two days, and is not, I'm glad to say, my current responsibility.

* * * *

Let me begin with one general observation that is at least interesting to note, although I'm not sure about its significance for our further deliberations. While the issue of "industrial policy"-- which is the second part of the title of this conference on "Mobilization Economic Analysis and Industrial Policy"-- tends to be a partisan issue when discussed separately, the issue of industrial policy when <u>coupled</u> with mobilization policy is <u>not</u> a partisan issue, or is indeed much less so. The issue of "industrial policy" (do we need one? why? does its absence explain why we've lost ground to the Japanese who

putatively have had one? and so forth) generally leads soi-disant "liberal" economists to advocate that we should have more far-reaching, as well as more coherent, government intervention in the marketplace, a viewpoint from which more conservative economists usually dissent. On the other hand, some quite conservative commentators have advocated intervention in the market's allocative process to assure that the inexorable workings of comparative costs and efficiency in peacetime don't erode our industrial capabilities for mobilization in wartime; for example, with respect to steel production, automotive capacity, and electronics.

In other words, among those who normally advocate a free market allocation process, there are many who wish explicitly to depart from that ruthless process where mobilization capabilities are concerned.

Let me now turn to the specific questions and tradeoffs that I referred to earlier. I will first briefly mention these points, and then proceed to elaborate each in a little more detail.

The first tradeoff I want to call your attention to is that between the economy's efficient performance in peacetime and its efficient performance in crisis mobilization.

Second, and indirectly related to the first, is the tradeoff between the government's efficient performance in peacetime and in wartime or in crisis mobilization.

The third point concerns a conjecture about the relationship between our increased ability to deter a large, protracted conventional conflict as a result of an improved mobilization base, and, paradoxically, the Soviet Union's possibly increased ability to impose economic costs upon us as a result of the same U.S. mobilization base.

My final point is the suggestion that it may be useful to analyze tradeoffs that exist among three factors: first, strategic warning and national command capabilities; second, WRM stocks (War Reserve Materiel); and third, industrial mobilization capabilities. The second and third factors are familiar enough, but they are not generally linked with the first.

Let me elaborate briefly upon each of these points.

1. Efficient Performance of the Economy in Peacetime and in Time of Crisis Mobilization

At a macroeconomic level, what I mean by this tradeoff is simply that mobilization costs will be lower and the expansion path (for example, in "days to production") will be steeper (that is to say, "quicker") if the economy starts from a position in which capital utilization is, say, 70% rather than 85%, and unemployment is, say, 10% rather than 6%. In a formal sense, the relationship between unutilized capital or labor on one axis, and mobilization time or costs on the other, is likely to be convex to the origin.

At a microeconomic level, the same sort of tradeoff can be posed in terms of the choice between average cost curves for individual firms that are shallow and shaped like a saucer, versus steeper, goblet-shaped average cost curves with a deeper and lower minimum cost point. From the standpoint of mobilization capabilities, the saucer-shaped average cost curves would be preferable; while from the standpoint of peacetime economic efficiency, the goblet-shaped cost curve with lower minimum costs would be preferable--a point which my Rand colleagues Charles Phelps and Adele Palmer have noted in the paper they will be presenting at this meeting tomorrow.

If these are the tradeoffs, what then is the optimal choice or combination? For macroeconomic policy, the answer depends on the interval, and its associated probability, between the normal, peacetime functioning of the economy, and the start of mobilization: because it is during this interval that the opportunity costs of the underutilized capital or labor are accumulating. From the microeconomic standpoint, the answer depends on the difference between the minimum cost point on the saucer-shaped average cost curves and the minimum point on the deeper, goblet-shaped curves, and, once again, on how long the interval is between peacetime and mobilization, and with what associated probability.

2. Efficient Performance of Government in Peacetime, and in Time of Crisis Mobilization

The tradeoff that I have in mind on this point is perhaps more controversial than the previous one. My contention here is that efficient economic performance during peacetime requires a resilient and responsive economy with relatively mobile and unprotected factors of production, and an efficiently functioning, relatively free market. These characteristics are likely to be associated with quite limited government intervention.

On the other hand, efficient performance in crisis or mobilization circumstances requires a very different set of governmental characteristics: notably, a decisive bureaucracy that can transmit strong and clear signals about resource reallocations and can monitor and enforce those signals expeditiously and effectively. If one assumes that a learning curve is associated with the development of such governmental intervention capabilities, then the following tradeoff

results: efficient performance of government in crisis circumstances requires practiced and experienced intervention in peacetime, while efficient performance of government in the peacetime economy would eschew or at least severely restrict such experience and practice!

So the question becomes how much experience and practice in intervention do we want to have the government exercise in peacetime even at a sacrifice of peacetime economic efficiency, in order to improve the learning and resulting capabilities of government to perform efficiently under crisis and mobilization conditions?

As I said at the start of these remarks, my aim here is to raise questions, rather than to answer them!

3. Deterrence by U.S. Mobilization Capabilities Versus Cost Imposition by the Soviet Union

One of the basic ideas underlying our current interest in mobilization analysis is due to Herman Kahn's earlier speculation about the extent to which the massive ability of the U.S. to mobilize its industrial might could serve as a deterrent to Soviet expansionism in various parts of the world. I have two quite different, and even conflicting, reservations about this line of thinking.

The first reservation relates to the enormous political inertia that limits, if it does not preclude, our mounting a credible ability to surge our industrial power for a wartime effort in the absence of any but the most extreme forms of provocation. Consequently, there are, I believe, serious limitations on the degree to which we can rely on mobilization capabilities as an instrument of deterrence in any but such extremely provocative contingencies.

My second reservation proceeds from the premise that, somehow, we might overcome this political inertia. In this event, I wonder whether

the very existence of our mobilization capabilities would, whatever their deterrent power, provide the Soviets with a means of imposing costs on the U.S. economy by various expansionist feints or "spoofs" that might activate the mobilization redirection of efforts and resources in the U.S. economy, to be followed simply by a tactical regrouping or withdrawal by the Soviet Union after the economic damage to the U.S. had already been imposed?

In brief, then, my reservations amount, on the one hand, to a worry that we can't expect to create such an image of readily-accessible mobilization capability to act as a deterrent; but, if we could, that our readiness to invoke this capability might itself open up to the Soviet Union a means of imposing significant costs on the U.S. economy.

4. Strategic Warning, War Reserve Materiel, and Industrial Mobilization

My final point is the suggestion that it may be useful to think about and to analyze, in ways that I don't think we have done thus far in the analytic community, the tradeoff relationships among (a) strategic warning and the effectiveness of the National Command Authority; (b) the size and composition of WRM, and (c) our industrial mobilization capabilities. I suggest that there is the following sort of relationship among these three components: to the extent that we have a longer and less ambiguous strategic warning of Soviet aggressive actions, to that extent we may need less in the way of WRM and of an industrial mobilization capability, simply because we will have, by this assumption, a longer time period in which to exercise "D to P" capabilities. Further, to the extent that we have both a longer strategic warning and a more adequate WRM inventory, to that extent our

"D to P" interval is further extended, and we would need less mobilization capability.

What I am suggesting may be summarized in two propositions: first, the issue of strategic warning and the effectiveness of the NCA ought to be integrated with, or at least brought into more prominent connection with, mobilization economic analysis than has been done in the past, because of the temporal connection that I've referred to above; and second, in view of the enormous political, legislative, and appropriations hurdles in the way of formal investments in the industrial mobilization base, we may be wiser to focus on combinations among these three elements that emphasize strategic warning and WRM, rather than incremental industrial mobilization capabilities.

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As I said at the outset, I have viewed my principal task as that of raising questions and issues. I am happy to leave to Bob Nathan, Leon Keyserling, Wassily Leontief, Larry Klein, and others the task of resolving them!

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